

Utah's Sales & Use Tax: Issues and Options

Prepared for:
Utah Tax Review Commission
May 13, 2010

Presentation Outline

- Background
- Sales Tax Revenues
- Sales Tax Base
- Sales Tax Rates
- Current Sales Tax Issues

Why Does the Sales & Use Tax Matter?

Features of the Sales & Use Tax (“Sales Tax”)

- Largest state General Fund revenue source & significant revenue source for many local governments
- Ability to purchase / consume is one measure of ability to pay
- Basically every household pays
- Regressive (lower income households tend to pay a higher percentage of income in tax)
- Potential to export a portion of the tax to visitors
- Administration - collected by businesses
- Impacts on local zoning decisions
- Collected a little bit at a time
- Politically popular (least unpopular?)

Sales & Use Tax History

- Sales tax first imposed by state during the Great Depression (1933)
- Use tax imposed soon after (1937)
- First local option sales tax authorized in 1959
- Over time, increasing reliance on sales tax for both state and local governments



Sales Tax Revenues

Utah's State & Local Tax Structure FY 2009

Property Tax

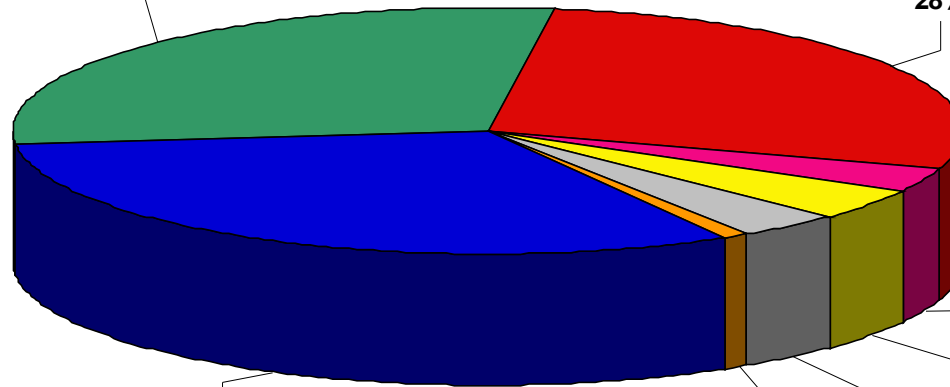
(local)
\$2.4B
29%

Individual Income Tax

(state)
\$2.3B
28%

Sales Tax

(state & local,
including earmarks)
\$2.6 B
31%



Corporate Income Tax (state), \$0.25B,
3%

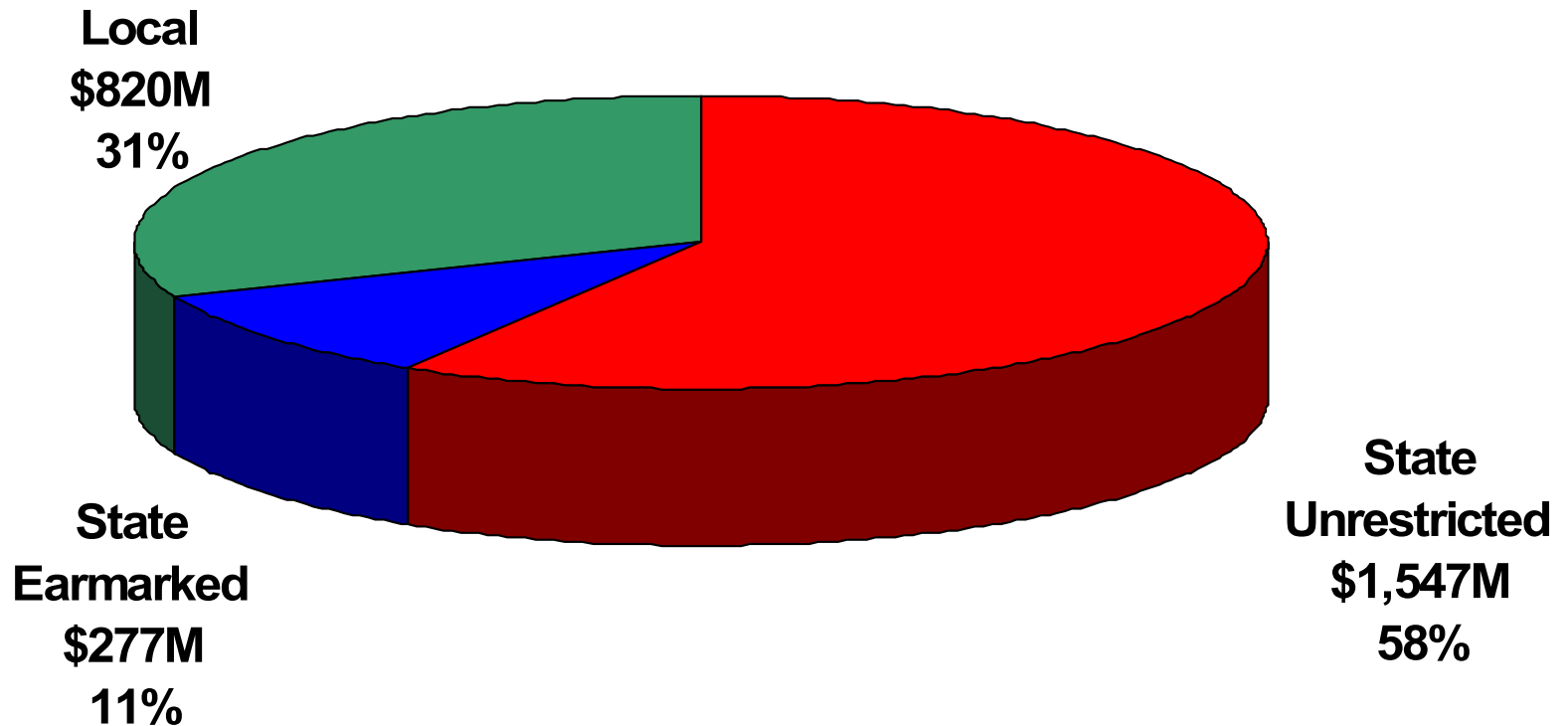
Transportation Taxes (state), \$0.34B,
4%

Other State (severance, cigarette,
insurance, etc.), \$0.30B, 4%

Other Local (Excise), \$0.07B, 1%

Sales and Use Tax Revenue:

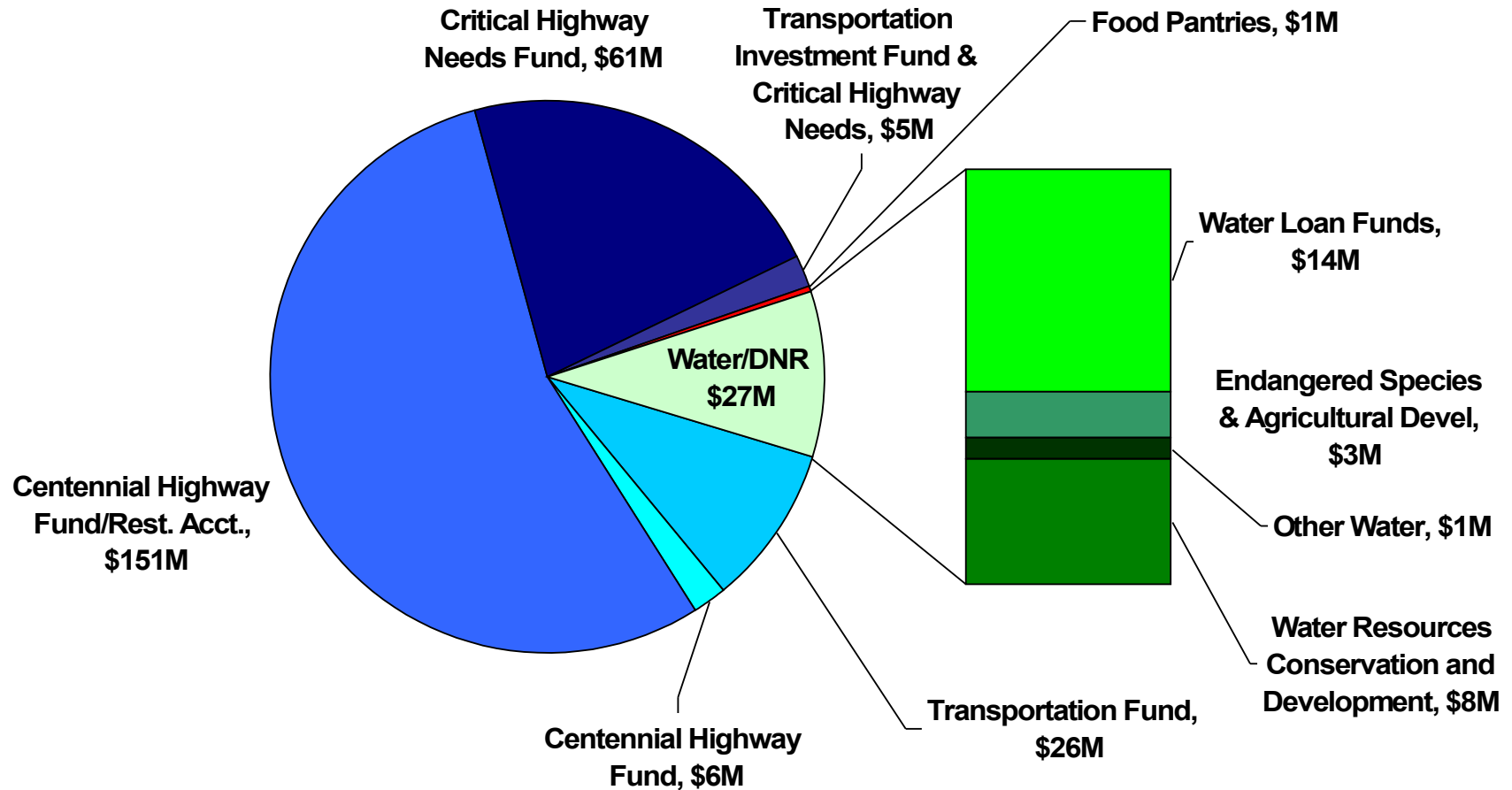
State Unrestricted, State Earmarked, and Local
FY 2009



Total FY 2009 Revenue:
\$2.64 Billion

Earmarks of State Sales and Use Tax

FY 2009

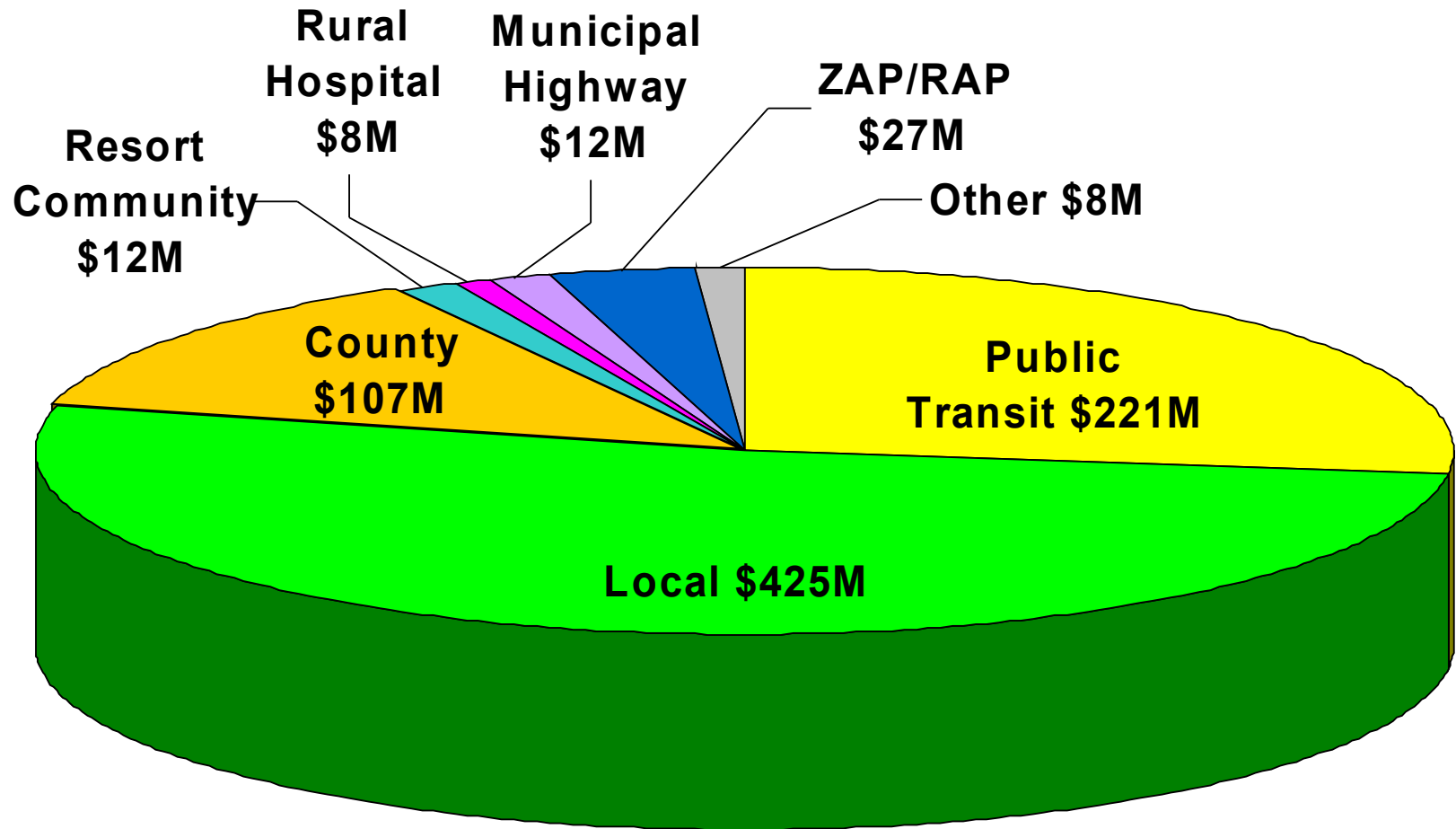


Total Earmarks: \$277 million

Source: Utah State Tax Commission, GOPB

Revenue from Local Sales & Use Taxes

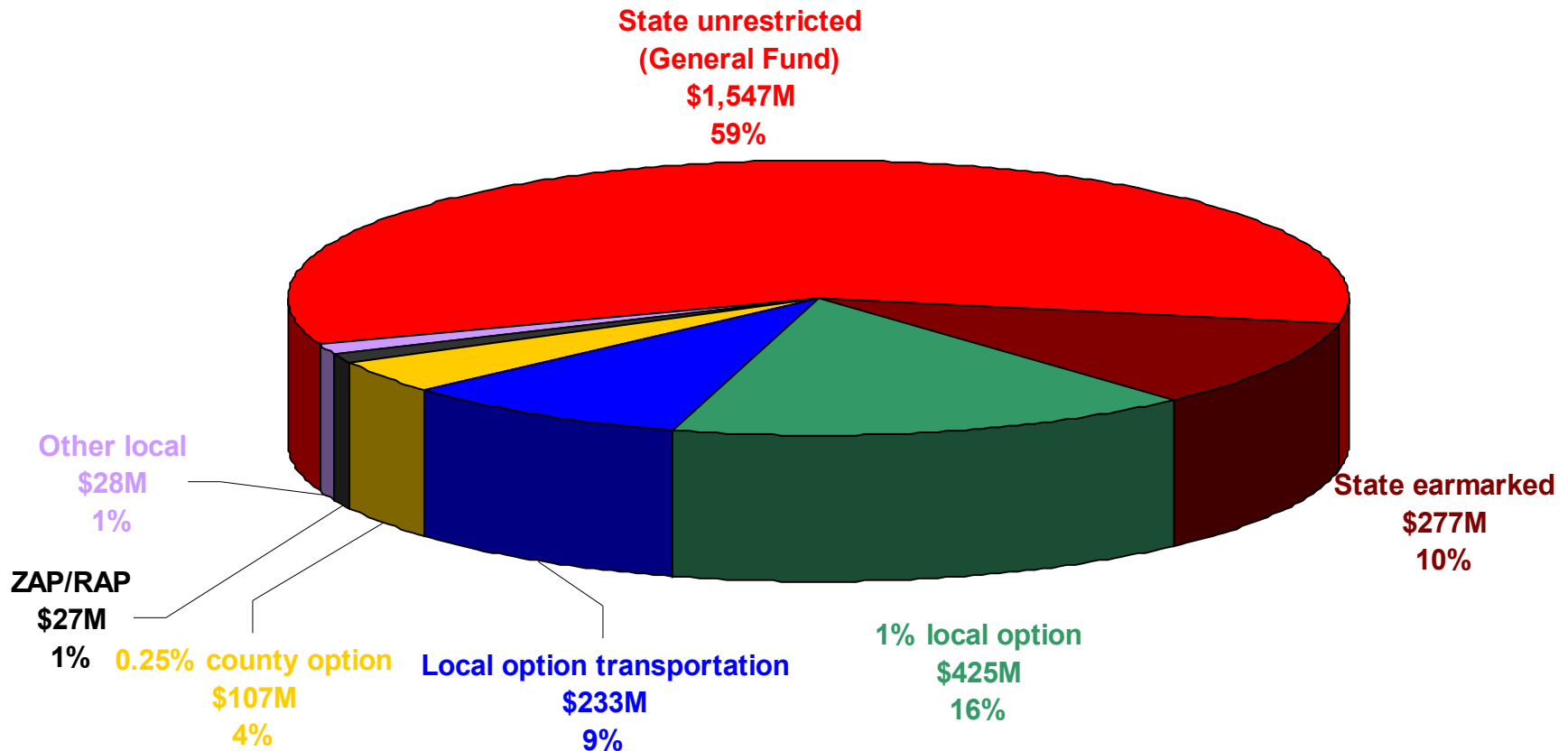
FY 2009



Total Local:
\$820 Million

Where Do Sales Tax Revenues Go?

FY 2009

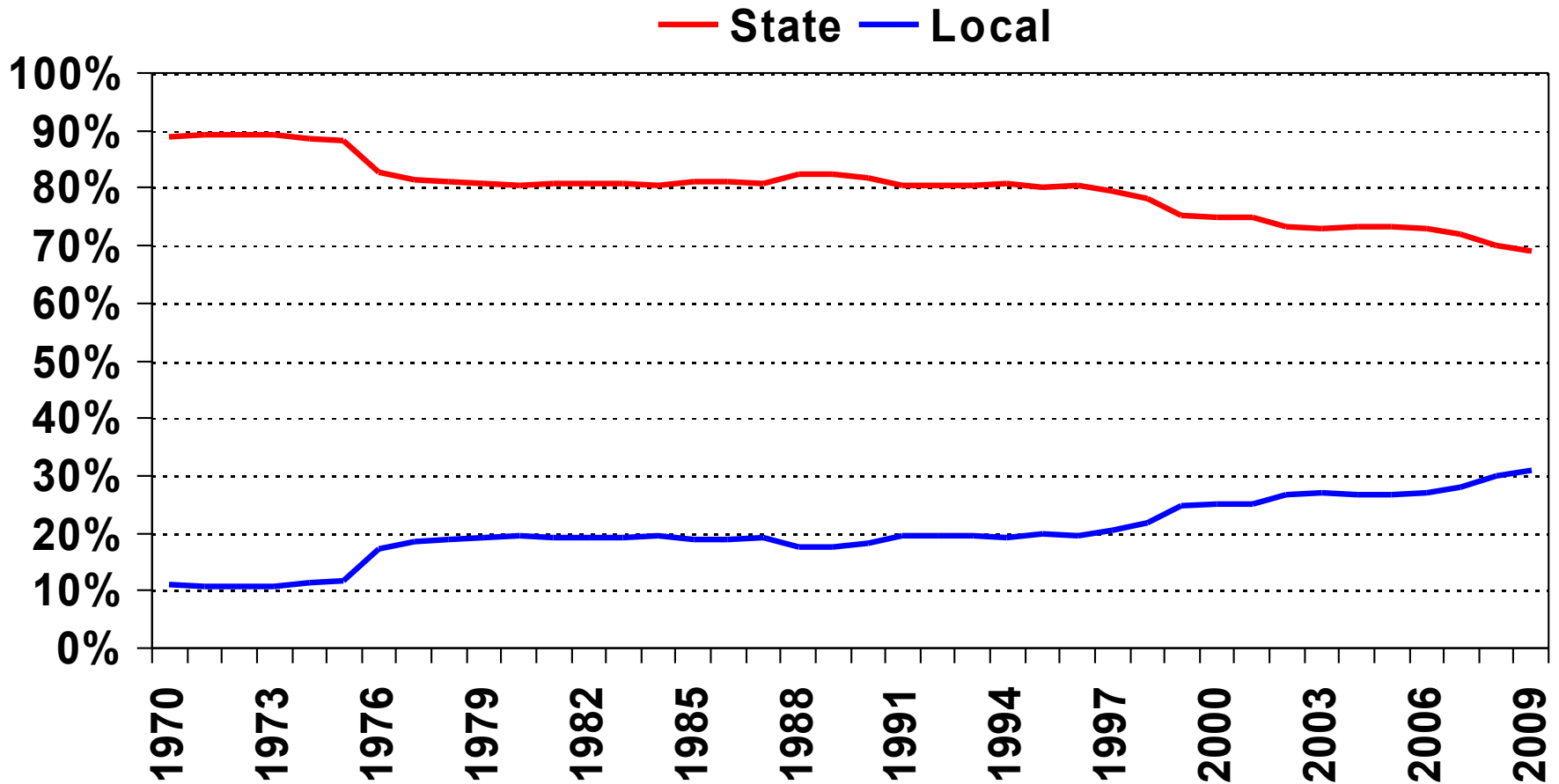


FY 2009 State & Local Sales & Use Tax Revenue:
\$2.64 billion

Source: Utah State Tax Commission

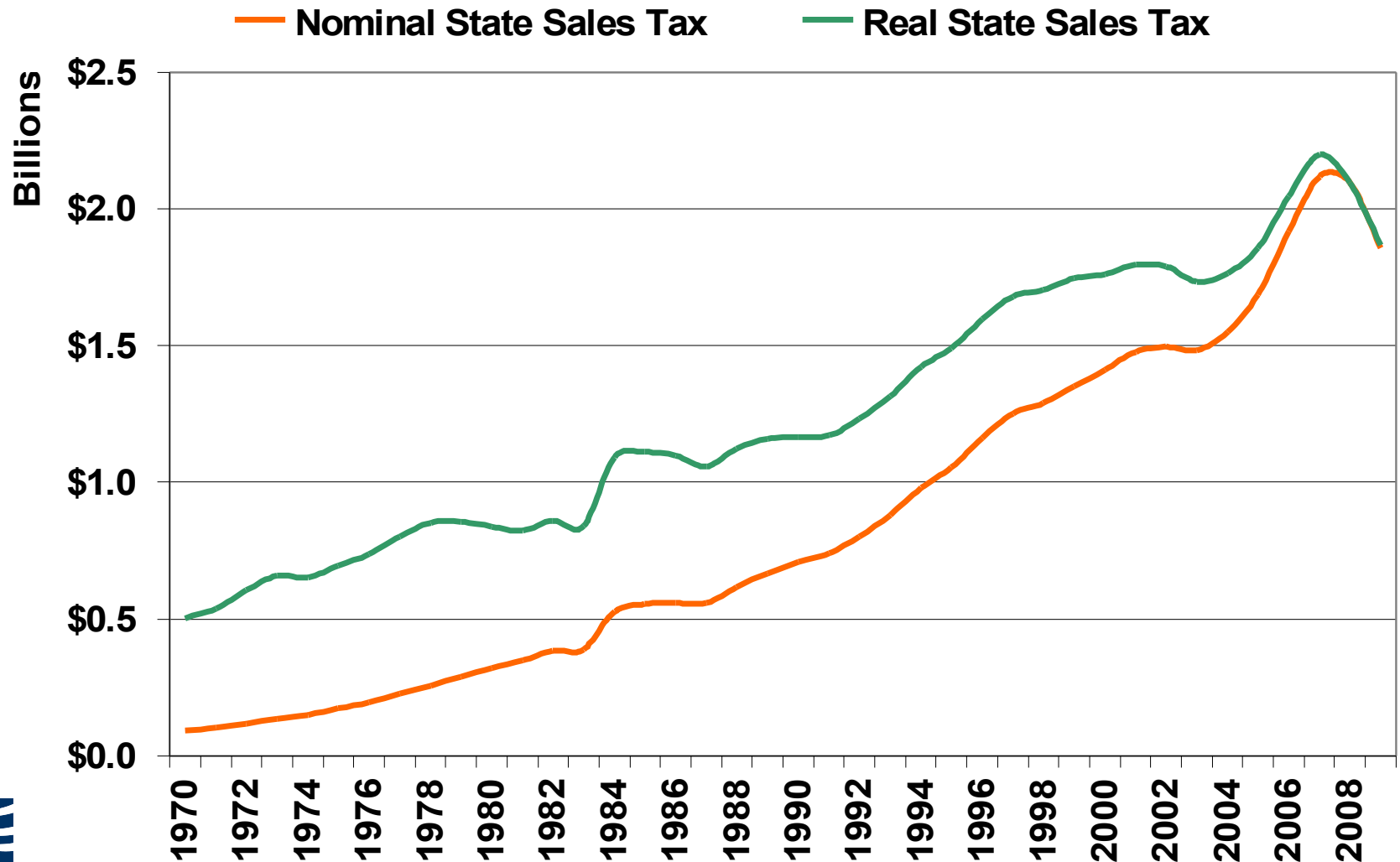
State & Local Share of Sales Tax

1970 to 2009



State Sales Tax Revenue Amounts

FY 1970-2009

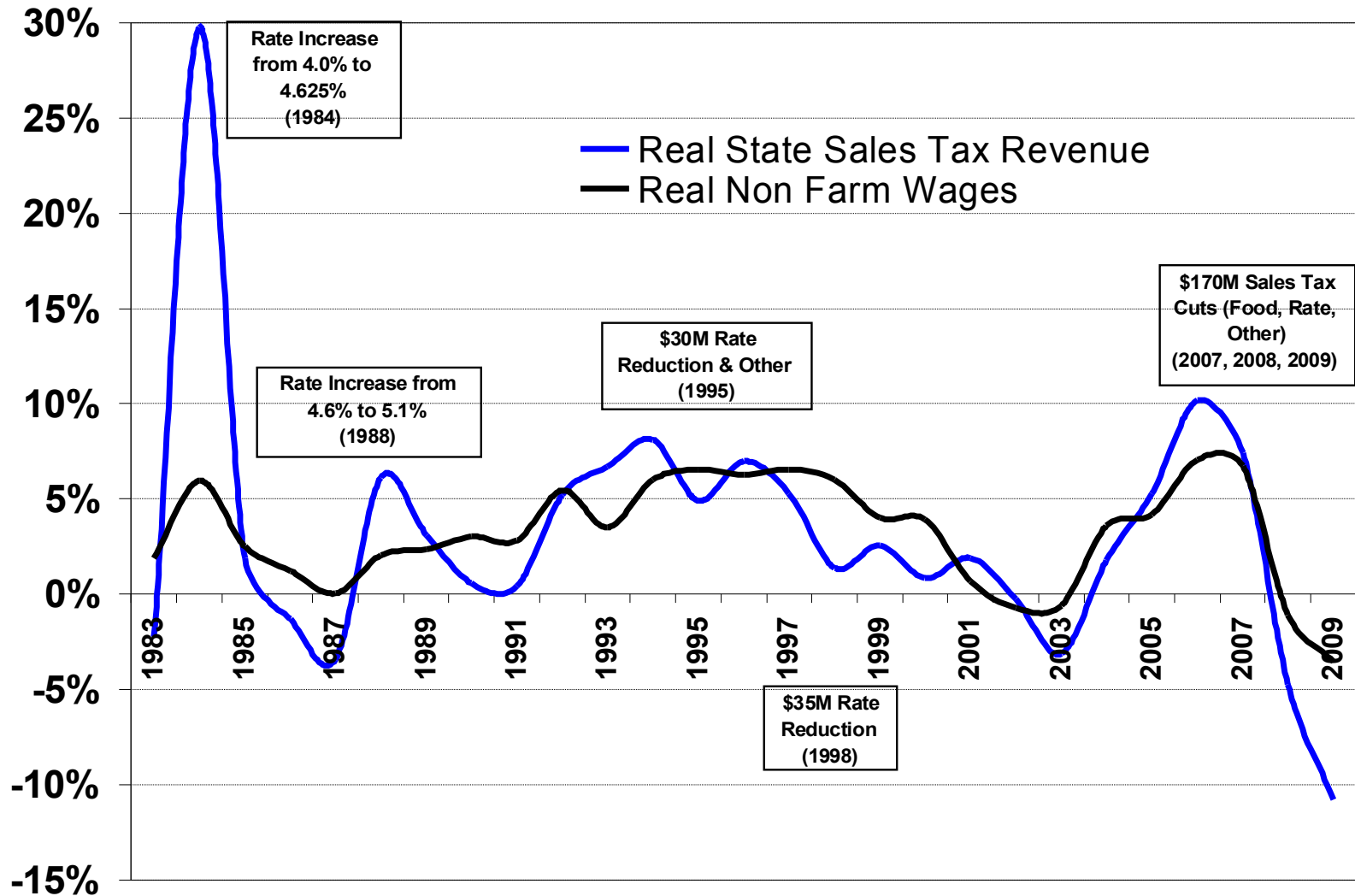


Why Do Tax Revenues Change?

- **Economic changes**
 - Employment
 - Population
 - Consumption
 - Investment
- **Legislated tax policy changes**
 - Tax base
 - Tax rate
 - Tax credits
- **Administrative changes**
 - Changes in official interpretation
 - Changes in practice

Sales Tax

Year-over % Change, FY 1983 - 2009



Sales Tax Base

Basic Tax Formula

$$(\text{Base} \times \text{rate}) - \text{credits} = \text{tax}$$

- Tax **BASE** – What is being taxed?
- Tax **RATE** – At what level is the tax base taxed?
- Tax **CREDITS** – Are there additional offsets to the initial base x rate amount?
- Tax **LIABILITY / REVENUE** – What is the net amount to be paid / collected?

The Utah Sales and Use Tax Base:

What *Do We Tax*?

Key transactions subject to tax include:

- Retail sales of tangible personal property
 - Reduced rate may apply on sales of food
- Sales of certain telecommunication or utility services (reduced rate may apply)
- Certain admissions, such as movie tickets
- Certain services, such as a car wash when the purchaser doesn't perform the labor, repairs of tangible personal property, or dry cleaning
- Certain hotel or motel charges
- Products such as computer software transferred electronically
- “Use tax”

The Utah Sales and Use Tax:

What *Don't* We Tax?

- Some transactions are not specifically exempt from sales and use taxes but are not part of the tax base, such as professional services or personal care services
- Other transactions are specifically exempt from sales and use taxes
 - Currently 68 exemptions
 - Estimated approximate state revenue effect for all exemptions for fiscal year 2009: \$460 Million

The Utah Sales and Use Tax Base:

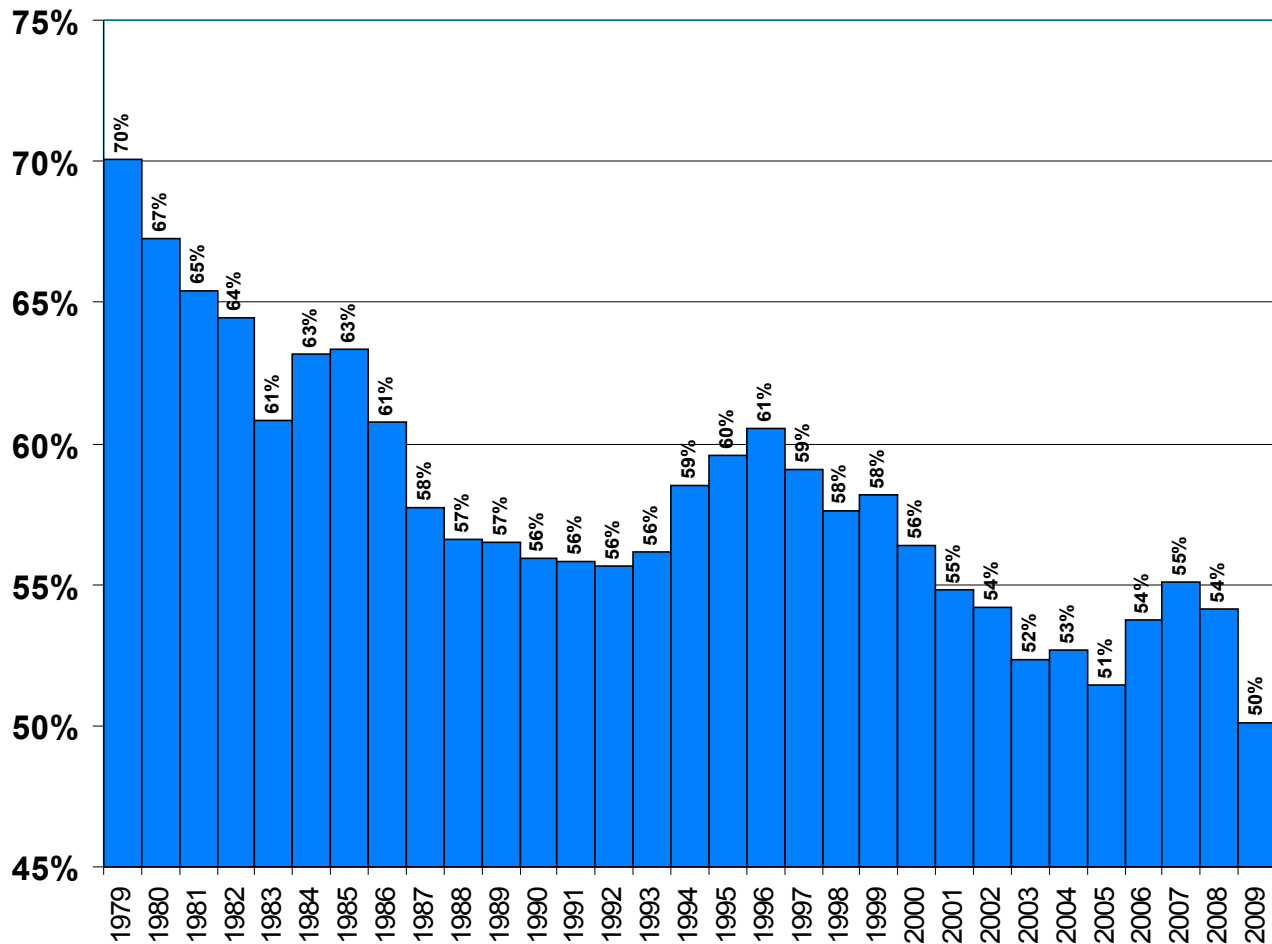
What Don't We Tax?

- Some examples of major sales and use tax exemptions include:

<u>Exemption</u>	<u>FY 2009 State Impacts</u>
Motor and special fuels	\$109 M
Manufacturing machinery & equipment	\$105 M
Resale property / component parts	\$ 55 M
Prescription drugs	\$ 40 M
Certain religious / charitable sales & purchases	\$ 11 M
Farm machinery & equipment	\$ 10 M

Sales Tax Base

Gross Taxable Sales as a % of Personal Income



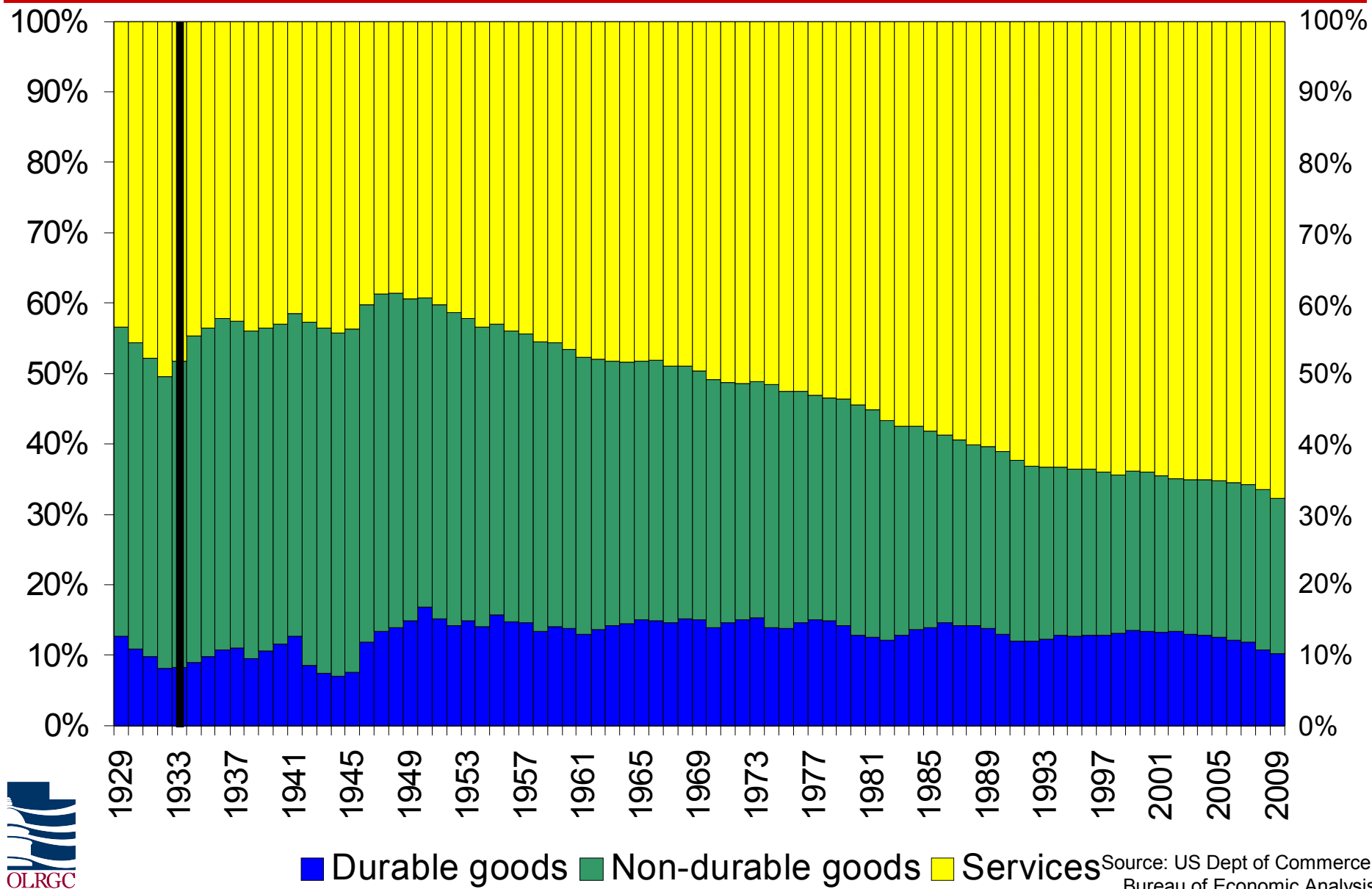
- Over the long term, the sales tax base is gradually declining relative to the economy as a whole.
- Why?

The Sales Tax Base:

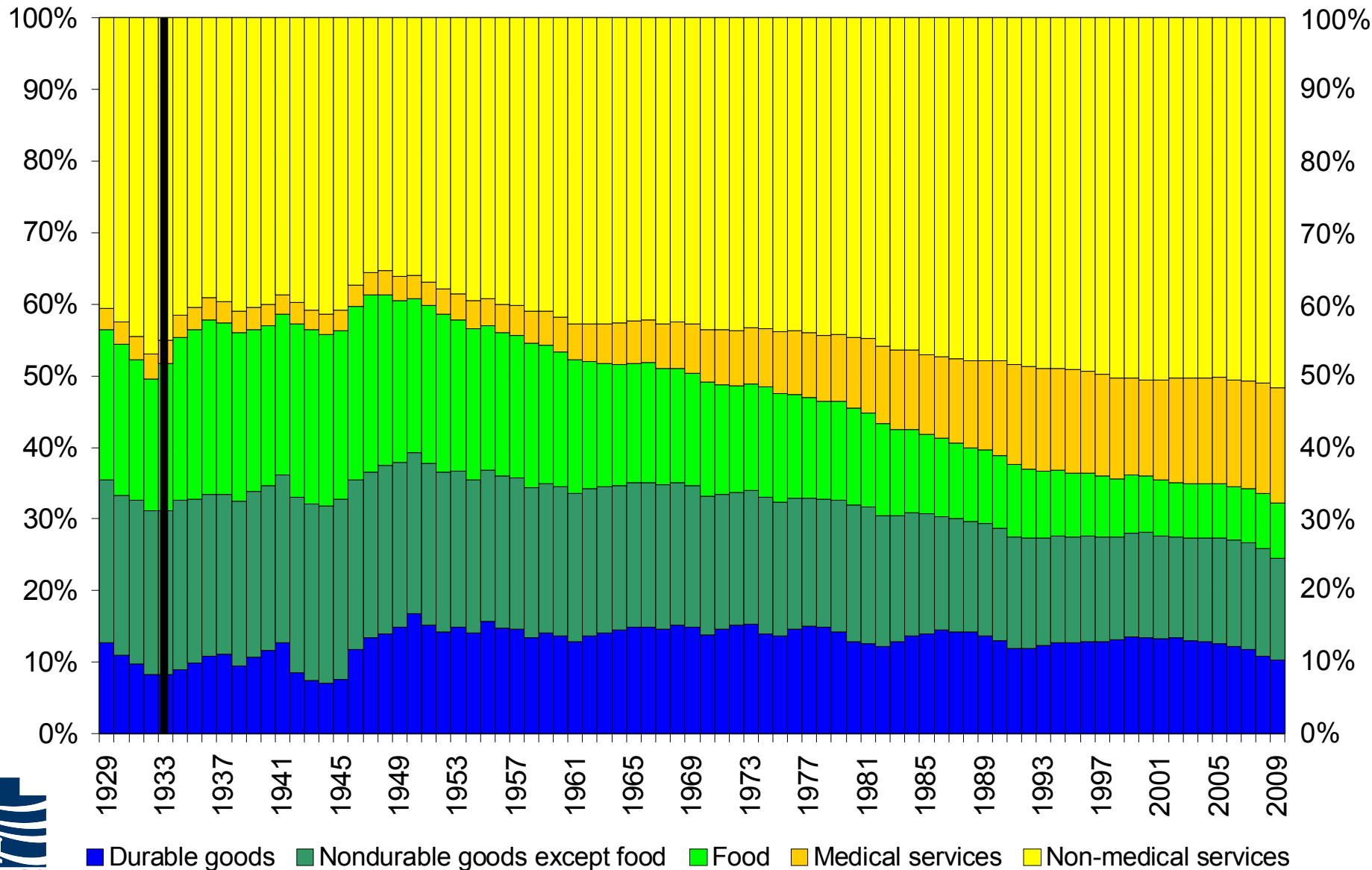
Why is It Declining Over the Long Term?

- Changing purchasing patterns
 - Movement to more of a service-based economy
 - Many services excluded from sales tax base
- Cross-border shopping
 - Internet and catalogue purchases
- Technological change
 - Digitization of goods (software, books, music)
- Legislated exemptions

US Personal Consumption Expenditures



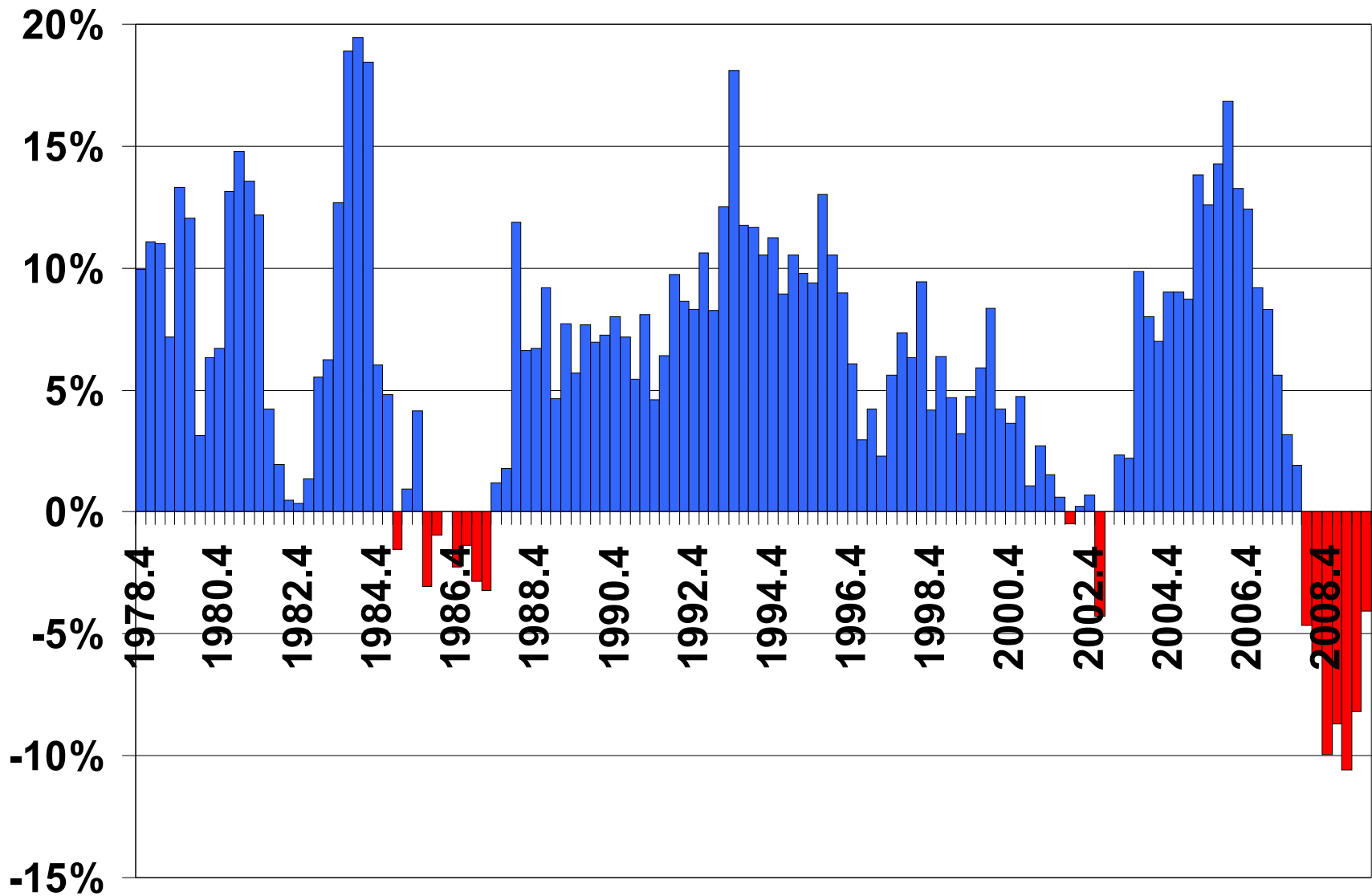
US Personal Consumption Expenditures



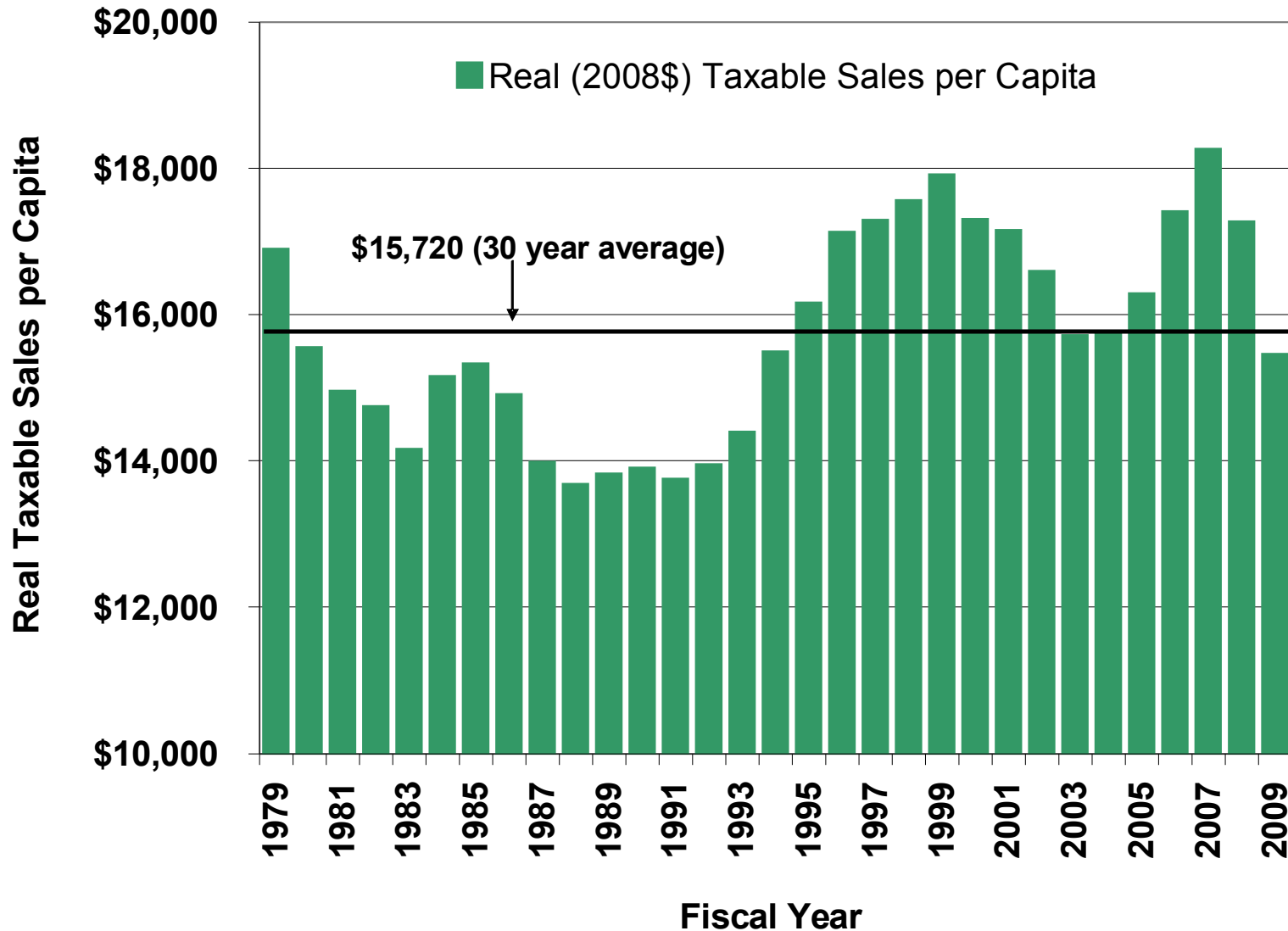
Data source: US Dept of Commerce, Bureau of Economic Analysis

Sales Tax Base

Nominal Gross Taxable Sales Changes

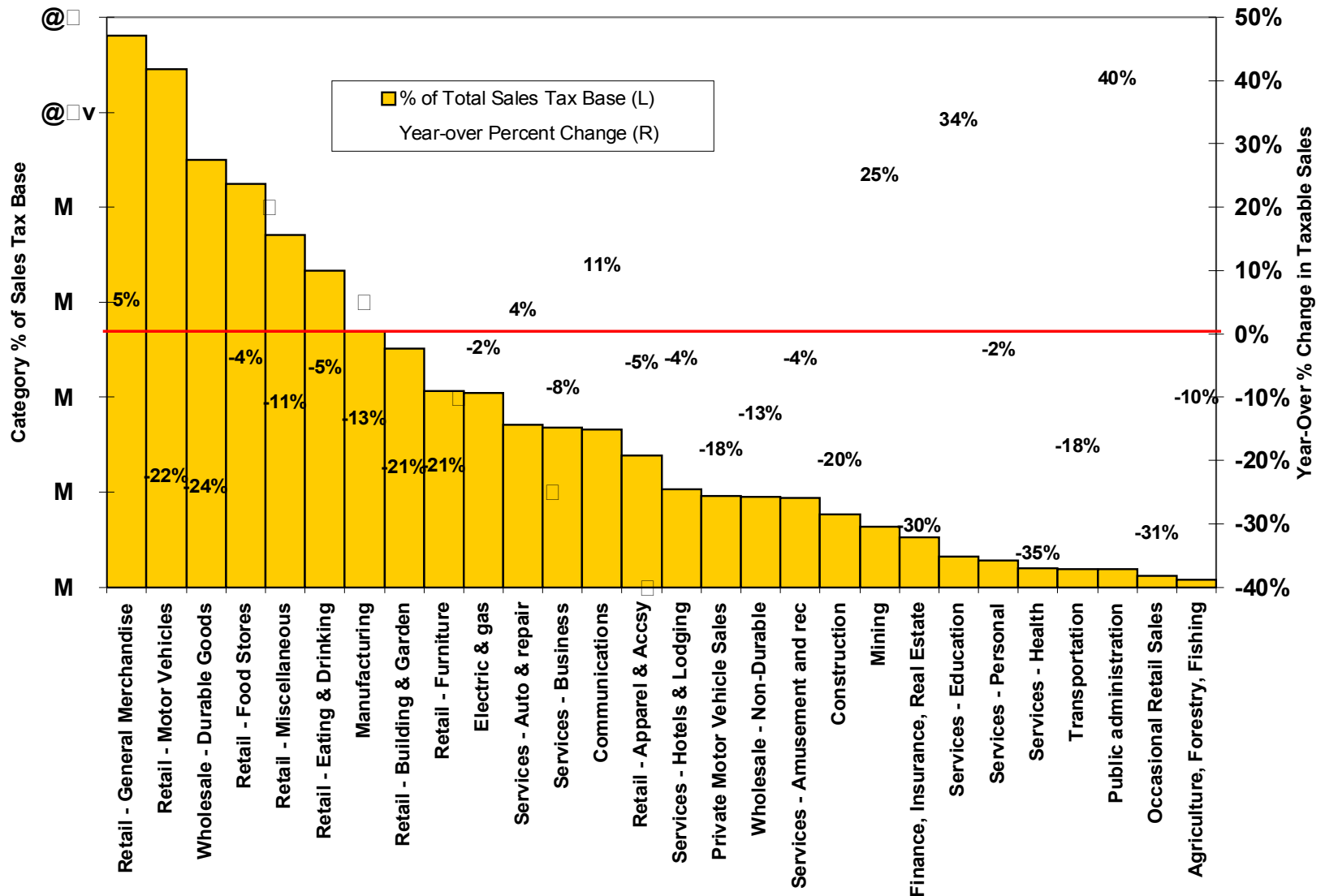


Inflation-Adjusted Per Capita Gross Taxable Sales



Sales Tax Base

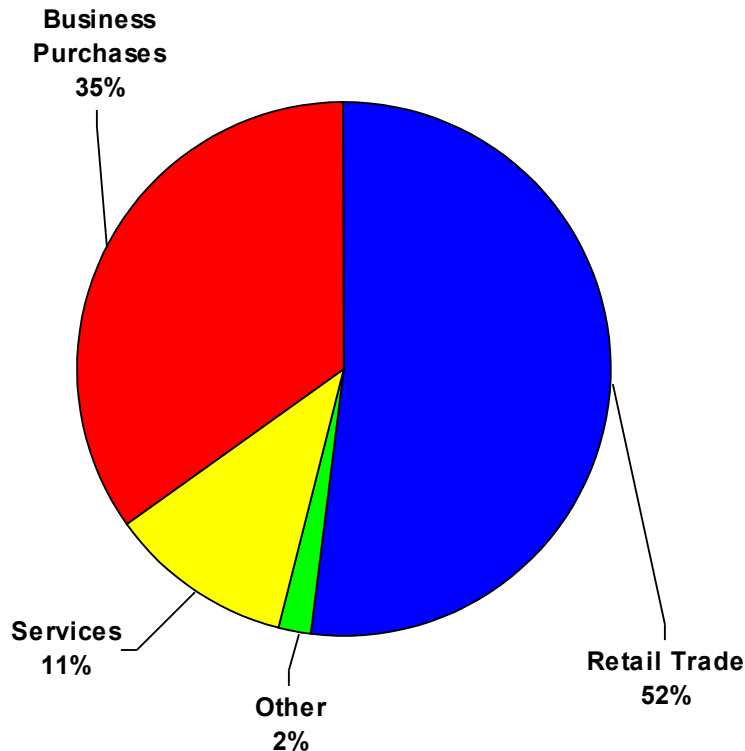
Recent Changes by Sector



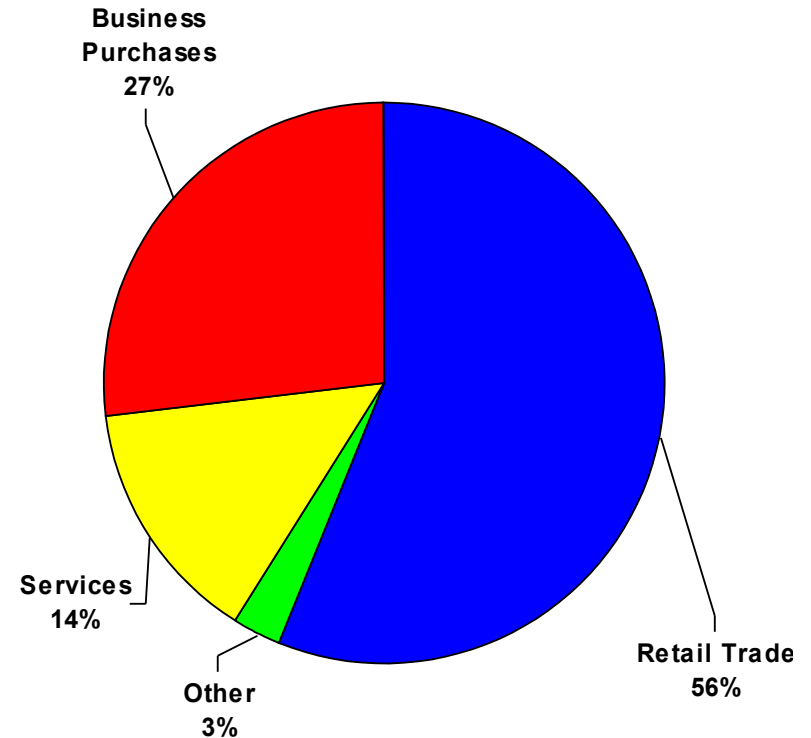
Source: Utah State Tax Commission

The Changing Utah Sales Tax Base

1984

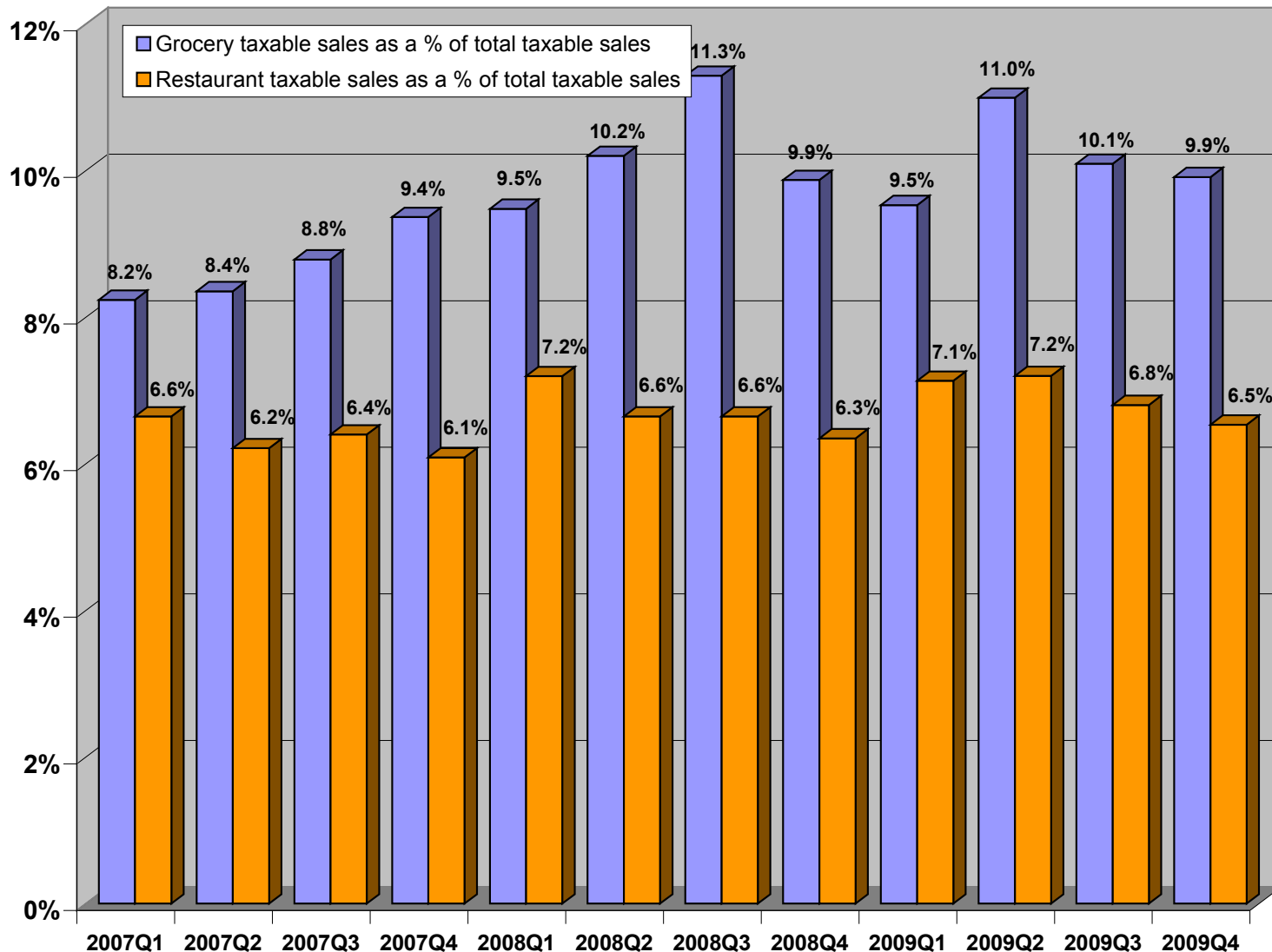


2008



Sales Tax on Food

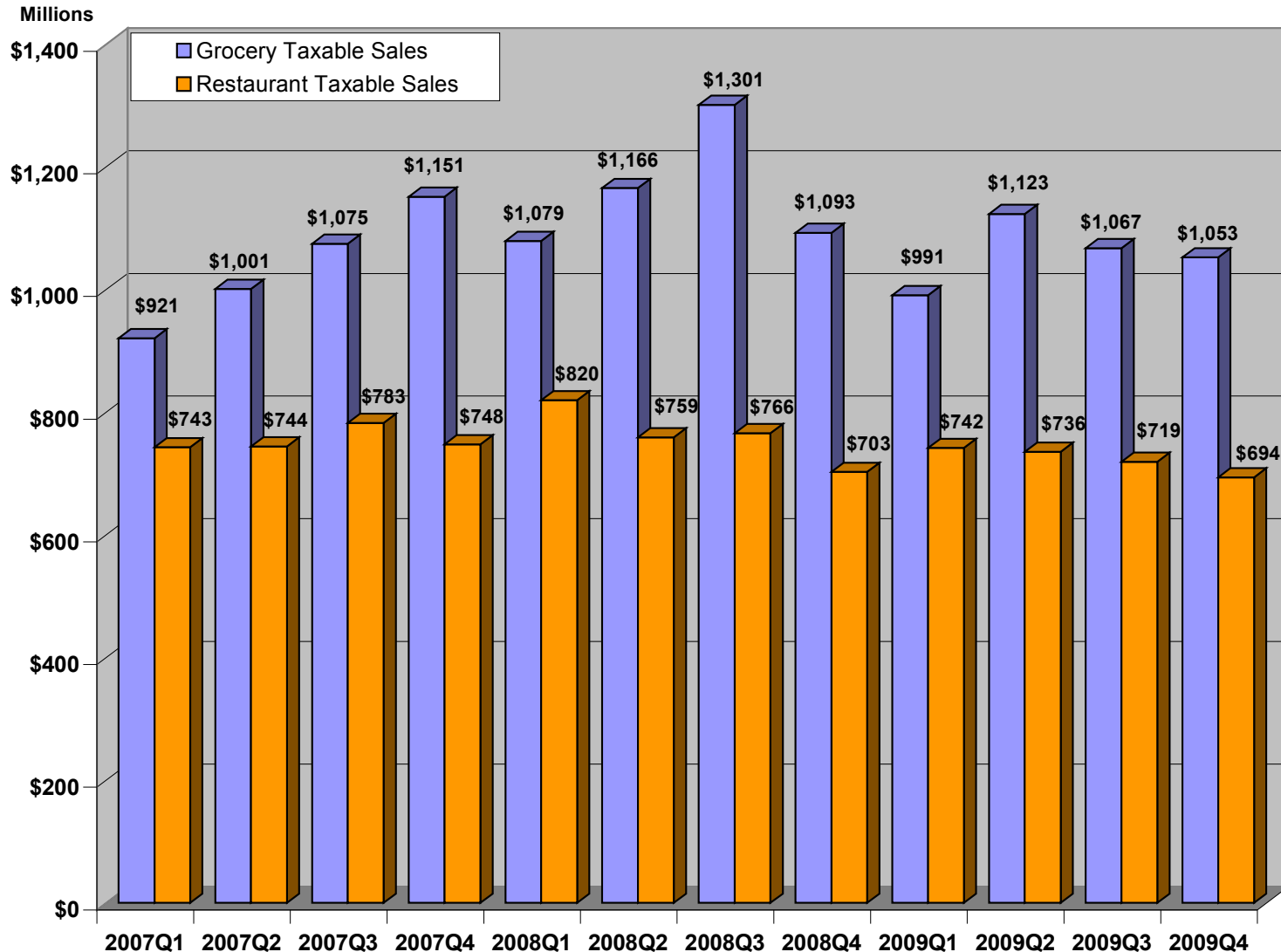
Food as a % of Gross Taxable Sales



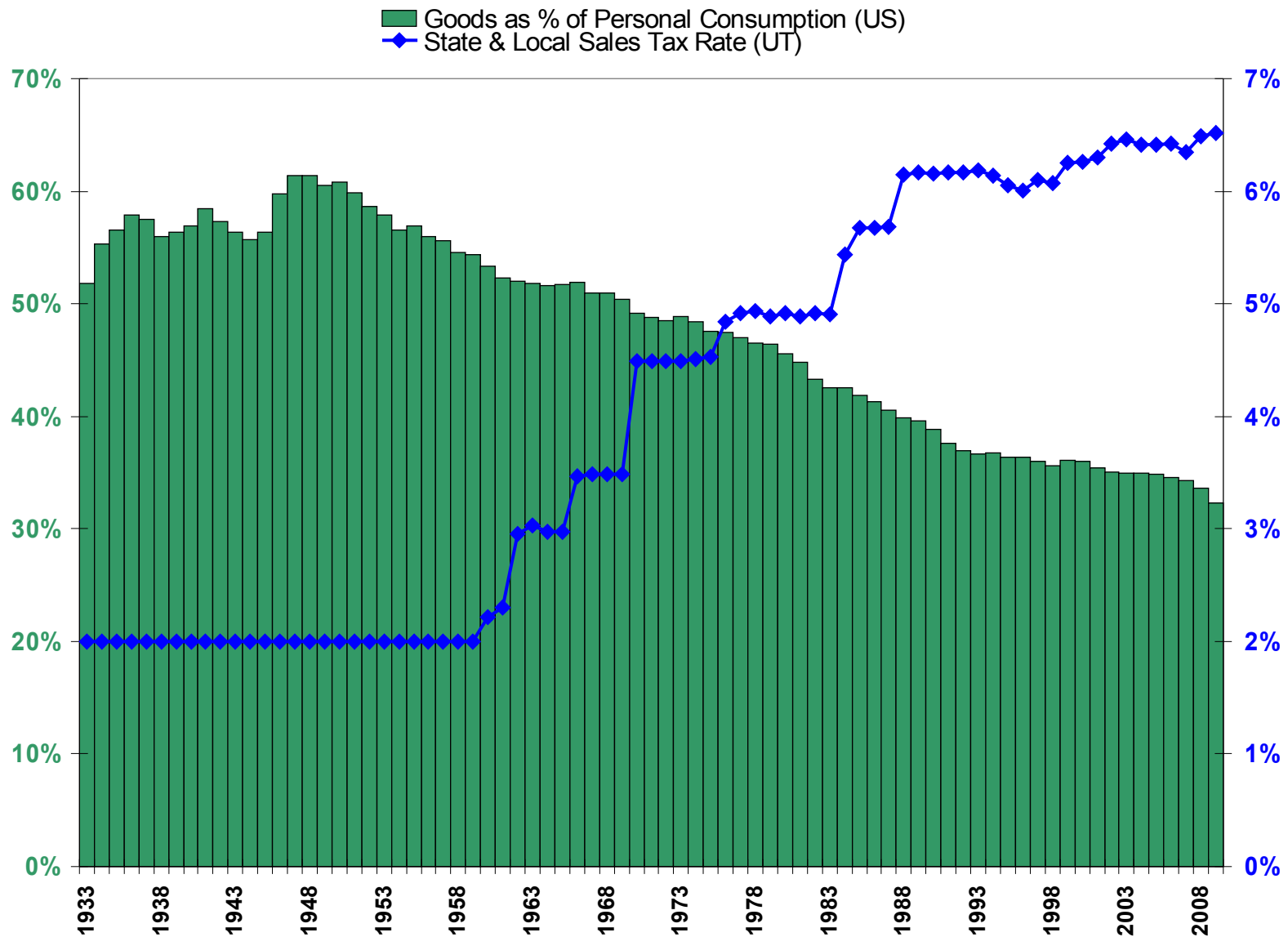
Source: Utah State Tax Commission

Sales Tax on Food

Food as a % of Gross Taxable Sales



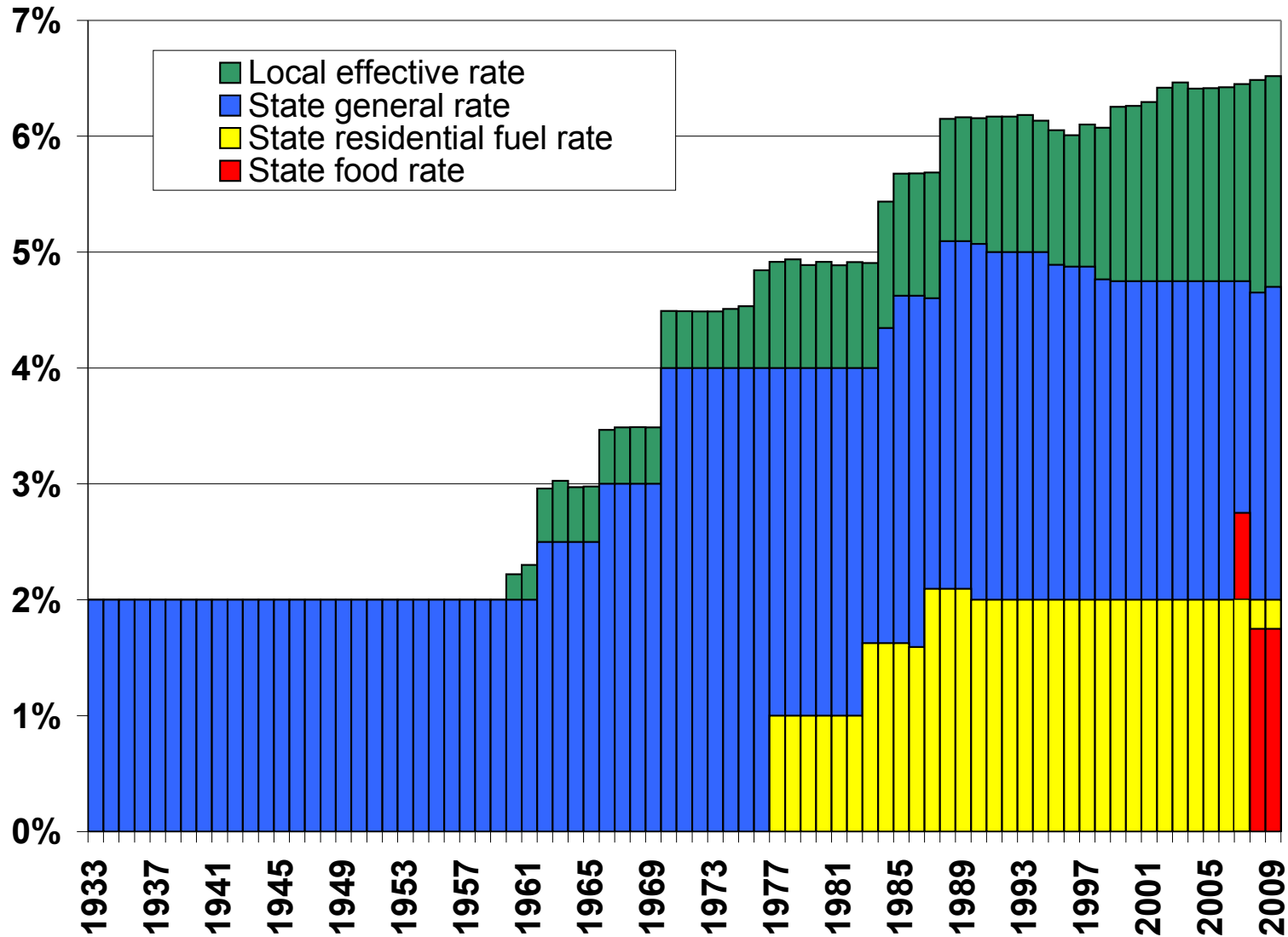
Shrinking Base, Increasing Rate



Data source: US Dept of Commerce, Bureau of Economic Analysis, Utah State Tax Commission

Sales Tax Rates

State & Local Sales Tax Rates



State & Local Option Sales and Use Tax Rates

State tax rate +

Sum of local tax rates where transaction occurs

Tax rate imposed on a transaction

- The state tax rate depends on what is being taxed

For example:

General state tax rate	4.70%
Residential fuels tax rate	2.00%
Prepared food tax rate	4.70%
Food and food ingredients tax rate	1.75%

State & Local Option Sales and Use Tax Rates

- Counties, cities, and towns are allowed to impose a variety of local sales and use taxes
- Most local option sales and use taxes tax the same transactions taxed at the state level
- Some local option sales and use taxes may be used for general fund purposes

For example:

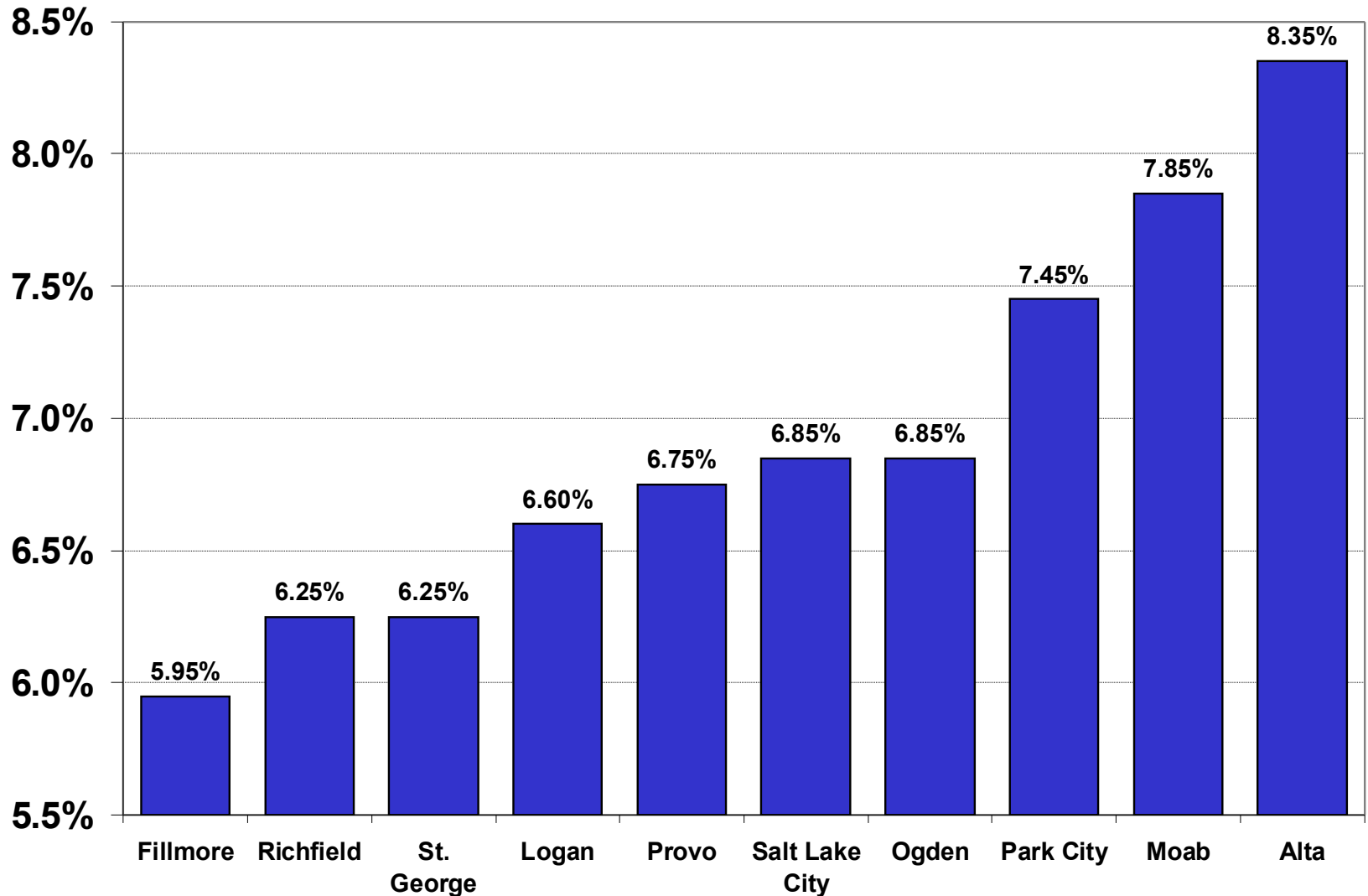
Local sales and use tax	1.00%
County option sales and use tax	0.25%

Local Option Sales and Use Tax Rates

Name	Rate (%)	# Jurisdictions
Local Option	1.00	283
County Option	0.25	29
Mass Transit – Basic	Up to 0.25 or Up to 0.30	90
Mass Transit - Additional	0.25	52
Mass Transit/Fixed Guideway	Up to 0.30	27
County Option Transportation	Up to 0.25	3
County Airport, Highway, and Public Transit	0.10 or 0.25	1
Rural County Hospital	Up to 1.00	4
Rural Municipal Hospital	Up to 1.00	1
County Zoo, Arts, and Parks	0.10	4
Municipal Recreation, Arts, and Parks	0.10	17
Municipal Highway	0.30	24
Town Option	Up to 1.00	1
City or Town Option	Up to 0.20	1
Resort Community – Basic	Up to 1.10	15
Resort Community - Additional	Up to 0.50	5

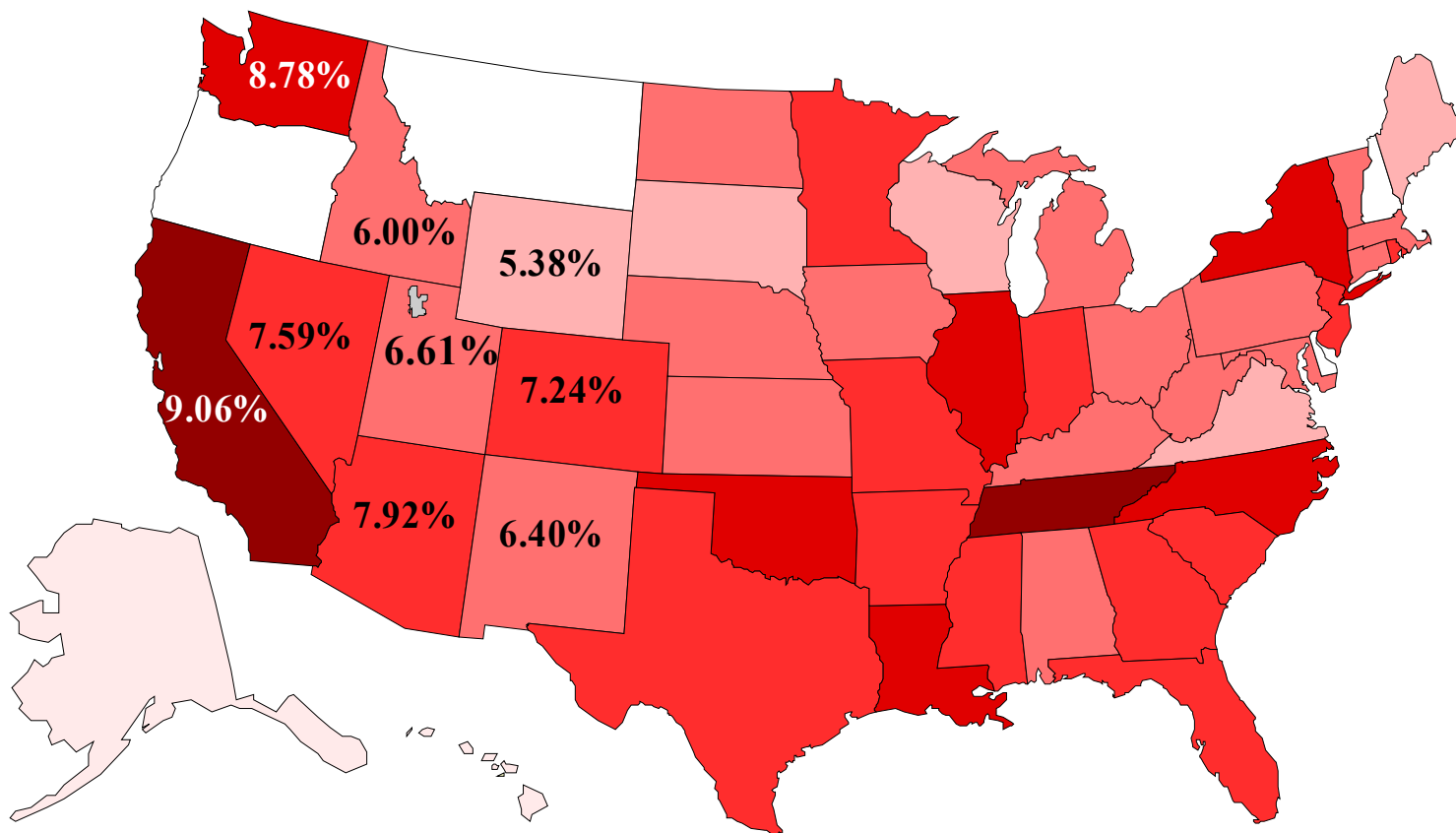
Combined State & Local Sales Tax Rates

Selected Locations, 2010Q1



US State & Local Sales Tax Rates

Statewide Average Rates, September 2009

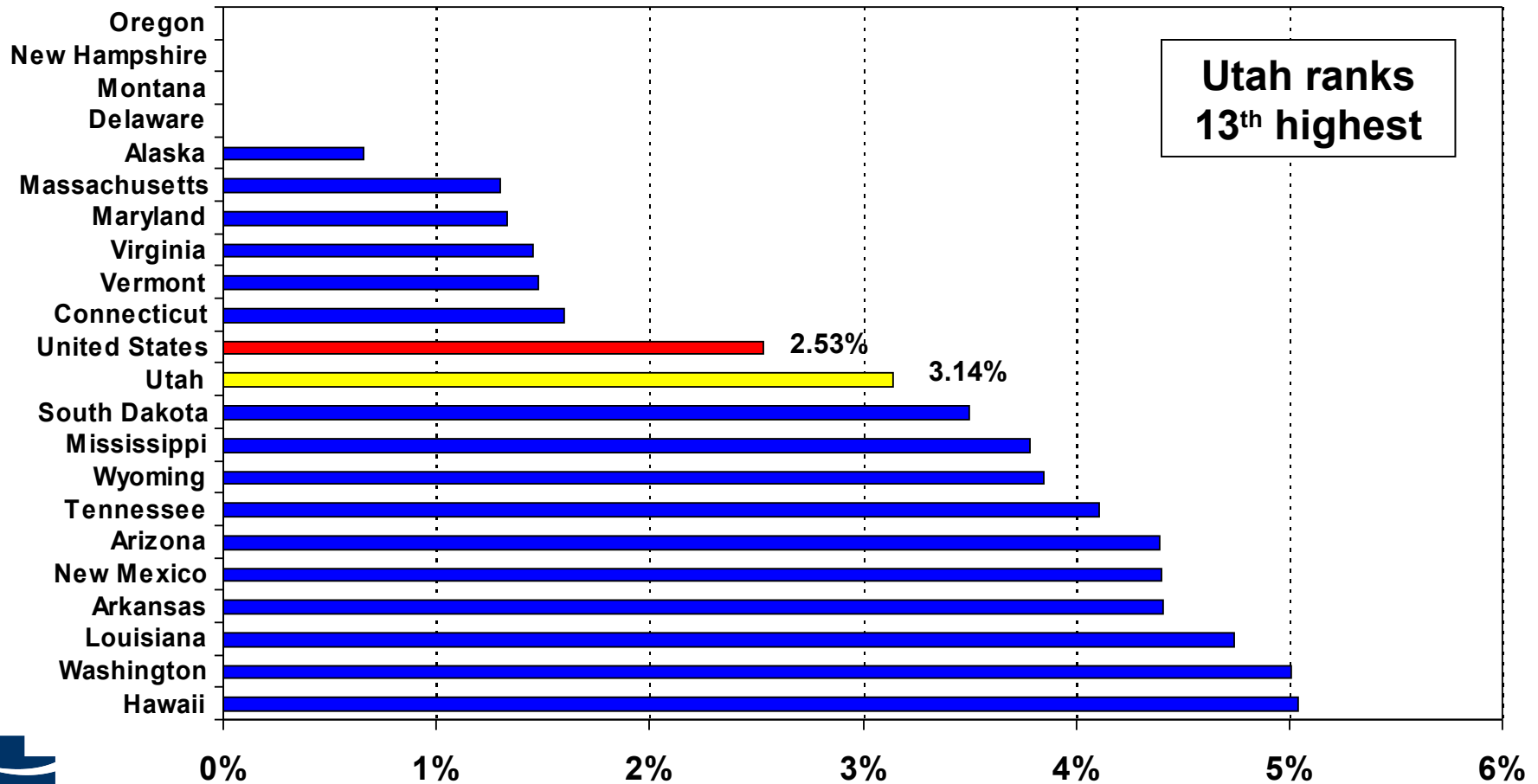


- 9.00% or greater (2)
- 8.00% to 8.99% (6)
- 7.00% to 7.99% (14)
- 6.00% to 6.99% (17)

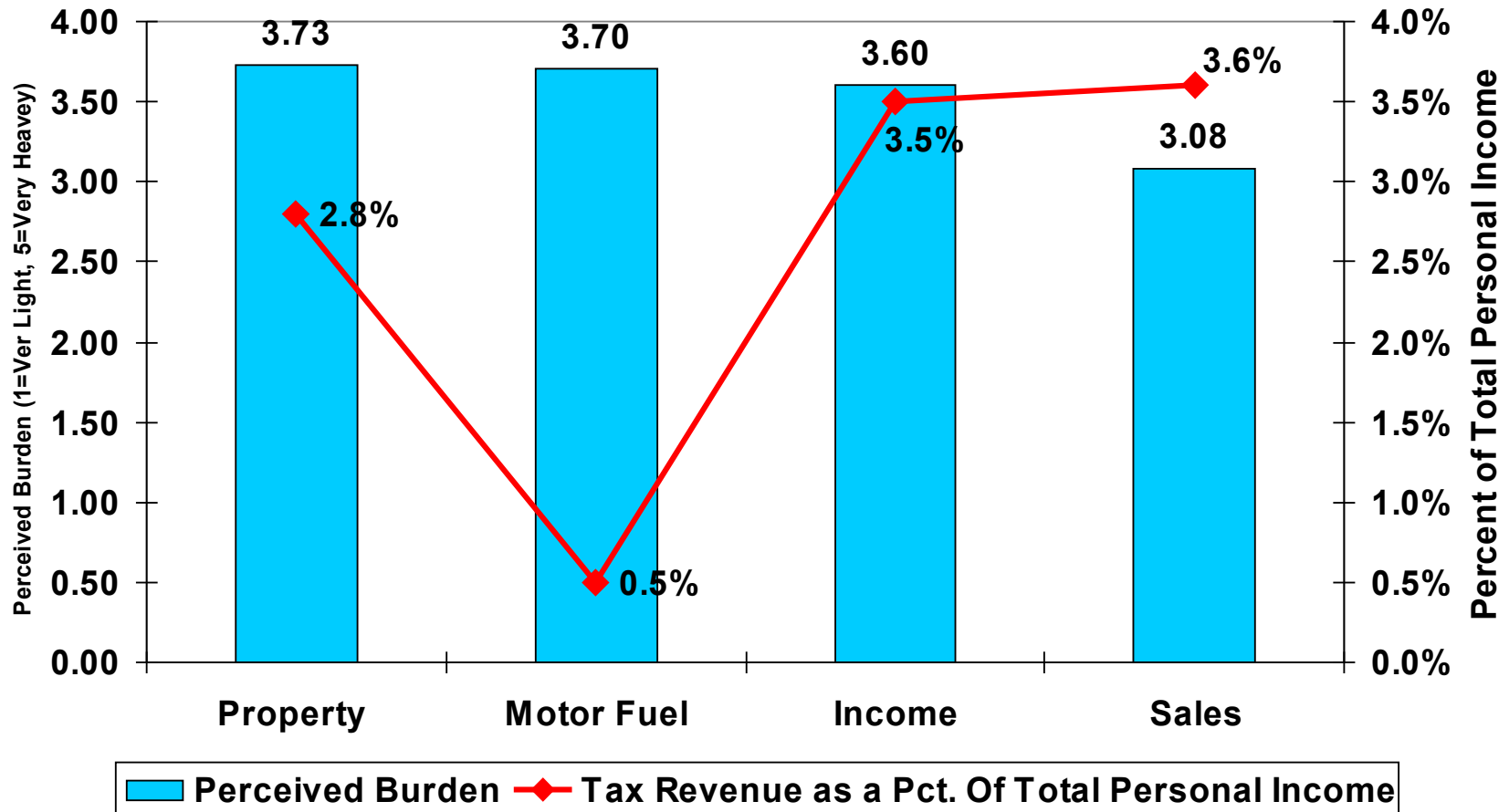
- 5.00% to 5.99% (5)
- Less than 5.00% (2)
- No general sales tax (4)

State and Local *General Sales Taxes* as % of Personal Income

Ten Highest and Ten Lowest States, Utah, and the United States: FY 2006 - 2007



Perceived vs. Actual Tax Burden: Selected Utah Taxes



Request from House Revenue and Taxation Standing Committee

- Examine HB 148, *Sales and Use Tax Changes* (Rep. Wayne Harper)
- Advantages and disadvantages of a single statewide sales tax rate
- Implications of a single statewide rate for the streamlined sales tax agreement
- Effect of differing sales tax rates on economic activity within the state
- Elimination of the 1.0% local option restaurant tax
- Increasing local government use of the sales tax over time, both in terms of proportion of revenue and in the increasing number of earmarked local option sales taxes
- Any other information the TRC believes is relevant to our deliberations